

**Harrison County School District**

**Audited Financial Statements  
and Other Financial Information**

**June 30, 2005**

**HARRISON COUNTY SCHOOL DISTRICT  
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# SUMMERS, MCCRARY & SPARKS, P.S.C.

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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee of School District Audits  
Members of the Board of Education  
Harrison County School District  
Cynthiana, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harrison County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2005, on our consideration of Harrison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental schedules on pages 40 through 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 45 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
September 28, 2005

**HARRISON COUNTY SCHOOL DISTRICT – , KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2005**

As management of the Harrison County School District “the District”, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

#### **FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$4,312,000 and the ending balance was \$3,838,000, a decrease of \$474,000 for the year.
- Following the completion of the district long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need. The Board expended \$1,569,958 for completion of prior projects and for continuing work on improving the facilities at all schools.
- The board initiated two new construction projects, but did not issue bonds in fiscal 2005. These projects were funded with Capital Outlay and Building Funds and are anticipated to cost approximately \$285,000 upon completion.
- At the end of fiscal year 2005, the District’s contingency balance was \$3,602,945. The balance for fiscal year 2004 was \$2,741,871. This was an increase of \$861,074 and is due to steps taken by the District to reduce expenditures across the board. This is a continuing effort due to uncertainties in future State funding.
- The General Fund had \$18,037,859 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$16,980,342 in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district’s total debt decreased by \$691,476 during the current fiscal year.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 19 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 39 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5,732,000 as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### **Net Assets for the period ending June 30, 2005**

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Listed below is a comparison of principle categories of assets, liabilities, and net assets for 2004 and 2005.

|  | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|--|----------------------|----------------------|
| Current Assets                             | \$ 4,649,379         | \$ 4,943,823         |
| Noncurrent Assets                          | <u>\$ 13,976,240</u> | <u>\$12,427,036</u>  |
| <b>Total Assets</b>                        | <b>\$ 18,625,619</b> | <b>\$17,370,859</b>  |
| Current Liabilities                        | \$ 1,291,634         | \$ 1,229,755         |
| Noncurrent Liabilities                     | <u>\$11,601,722</u>  | <u>\$12,365,721</u>  |
| <b>Total Liabilities</b>                   | <b>\$12,893,356</b>  | <b>\$13,595,476</b>  |
| <b>Net Assets</b>                          |                      |                      |
| Investment in capital assets (net of debt) | \$1,787,096          | \$ 523,672           |
| Restricted                                 | \$ 378,930           | \$1,715,056          |
| Unreserved Fund Balance                    | <u>\$3,566,237</u>   | <u>\$1,536,655</u>   |
| <b>Total Net Assets</b>                    | <b>\$5,732,263</b>   | <b>\$3,775,383</b>   |

The following are significant current year transactions that have had an impact on the Statement of Net Assets..

#### **Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2005, net of interfund transfers, were \$21,842,989.
- Excluding on-behalf payments, the General Fund budgeted revenue compared to actual varied slightly from line item to line item with the ending balance being \$1,685,433 more than budget or approximately 10%.
- The total cost of all programs and services was \$21,187,352 net of debt service.
- General fund budget expenditures to actual varied significantly in instructional services (\$1,943,676). However, expenditures associated with payments made by the state on behalf of the District, totaling \$2,631,896 for instructional services, were not budgeted. Additionally, plant operations closed with a budget surplus of \$170,193.



The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2005 and 2004.

|                                       | 2005                | 2004                |
|---------------------------------------|---------------------|---------------------|
| <b>Revenues:</b>                      |                     |                     |
| Local revenue                         | \$ 4,026,680        | \$ 3,861,000        |
| State revenue                         | 15,829,204          | 14,328,000          |
| Federal revenue                       | 1,676,146           | 1,591,000           |
| Other                                 | 310,958             | 265,000             |
| <b>Total revenues</b>                 | <b>\$21,842,988</b> | <b>\$20,045,000</b> |
| <b>Expenses:</b>                      |                     |                     |
| Instruction                           | \$12,613,781        | \$ 9,721,000        |
| Student support services              | 436,463             | 320,000             |
| Instructional support                 | 696,183             | 373,000             |
| District administration               | 472,619             | 436,000             |
| School administration                 | 1,030,087           | 864,000             |
| Business support                      | 709,582             | 166,000             |
| Plant operations                      | 2,100,756           | 2,013,000           |
| Student transportation                | 1,146,771           | 1,335,000           |
| Community services                    | 351,008             | 410,000             |
| Facilities acquisition & construction | 1,630,089           | 4,367,000           |
| Other                                 | 969,474             | 260,000             |
| <b>Total expenses</b>                 | <b>\$22,156,826</b> | <b>\$20,265,000</b> |
| <b>Expenses in excess of revenues</b> | <b>(\$ 313,837)</b> | <b>(\$ 220,000)</b> |

#### **General Fund Revenue**

The majority of revenue was derived from local taxes (18%) and state funding 77% of total revenues.

#### **Budget Allocation**

Site Based Decision Making Councils expended \$10,091,800 of the general fund budget (52%). Nine percent of the Non-SBDM funds were spent serving children with special needs. The remaining 32% of the general fund budget was expended for district-wide services, transportation, and plant operations.

#### **District-Wide Support Allocation**

District-wide support services expenditures were Transportation 7%, Maintenance & Operations 13%, and Business Functions 3%.

### **BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$2,383,187 in contingency (10%). The beginning General Fund balance for the fiscal year was \$2,741,871 million. Significant Board actions that impact the finances include a 3.5% pay raise for all employees, additional spending on the English as a Second Language,

(ESL) program, and allotment of \$420,000 for facility repairs outside of bonded building and renovation projects.

Questions regarding this report should be directed to the Superintendent Dr. Roy Woodward or to his representative, Director of Finance Julie Asher or by mail at:

Harrison County School District  
324 Webster Ave.  
Cynthiana, KY 41031

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

|  | PRIMARY GOVERNMENT         |                             |                      |
|--|----------------------------|-----------------------------|----------------------|
|  | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                |
| <b>ASSETS</b>  |                            |                             |                      |
| Current Assets:  |                            |                             |                      |
| Cash and cash equivalents  | \$ 3,939,649               | \$ 9,256                    | \$ 3,948,905         |
| Accounts receivable  |                            |                             |                      |
| Taxes  | 120,519                    | -                           | 120,519              |
| Accounts   | 18,925                     | 21,766                      | 40,691               |
| Intergovernmental - state  | 15,699                     | -                           | 15,699               |
| Intergovernmental - federal  | 305,748                    | 74,545                      | 380,293              |
| Prepaid expenses   | 111,505                    | -                           | 111,505              |
| Inventory  | -                          | 31,767                      | 31,767               |
| Total Current Assets   | 4,512,045                  | 137,334                     | 4,649,379            |
| Noncurrent Assets:   |                            |                             |                      |
| Bond discounts and issue costs net of<br>accumulated amortization of \$3,231 | 52,144                     | -                           | 52,144               |
| Non-depreciated capital assets   | 1,029,650                  | -                           | 1,029,650            |
| Net depreciated capital assets   | 12,828,867                 | 65,579                      | 12,894,446           |
| Total Noncurrent Assets  | 13,910,661                 | 65,579                      | 13,976,240           |
| <b>TOTAL ASSETS</b>  | <b>\$ 18,422,706</b>       | <b>\$ 202,913</b>           | <b>\$ 18,625,619</b> |
| <b>LIABILITIES</b>   |                            |                             |                      |
| Current Liabilities:   |                            |                             |                      |
| Accounts payable   | \$ 79,402                  | \$ 1,039                    | \$ 80,441            |
| Bank overdraft   | 107,257                    | 3,664                       | 110,921              |
| Current portion of bond obligations  | 710,000                    | -                           | 710,000              |
| Current portion of lease obligations   | 65,000                     | -                           | 65,000               |
| Current portion of notes payable   | 57,000                     | -                           | 57,000               |
| Current portion of accrued sick leave  | 8,424                      | -                           | 8,424                |
| Accrued interest payable   | 68,910                     | -                           | 68,910               |
| Deferred revenue   | 190,938                    | -                           | 190,938              |
| Total Current Liabilities  | 1,286,931                  | 4,703                       | 1,291,634            |
| Noncurrent Liabilities:  |                            |                             |                      |
| Noncurrent portion of bond obligations                                       | 10,720,000                 | -                           | 10,720,000           |
| Noncurrent portion of lease obligations                                      | 300,000                    | -                           | 300,000              |
| Noncurrent portion of notes payable  | 285,000                    | -                           | 285,000              |
| Noncurrent portion of accrued sick leave                                     | 296,722                    | -                           | 296,722              |
| Total Noncurrent Liabilities   | 11,601,722                 | -                           | 11,601,722           |
| <b>TOTAL LIABILITIES</b>   | <b>12,888,653</b>          | <b>4,703</b>                | <b>12,893,356</b>    |
| <b>NET ASSETS</b>  |                            |                             |                      |
| Invested in capital assets, net of related debt                              | 1,721,517                  | 65,579                      | 1,787,096            |
| Restricted for:  |                            |                             |                      |
| Capital projects   | 378,930                    | -                           | 378,930              |
| Unrestricted   | 3,433,606                  | 132,631                     | 3,566,237            |
| <b>TOTAL NET ASSETS</b>  | <b>5,534,053</b>           | <b>198,210</b>              | <b>5,732,263</b>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                                      | <b>\$ 18,422,706</b>       | <b>\$ 202,913</b>           | <b>\$ 18,625,619</b> |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

| FUNCTIONS/PROGRAMS                      | PROGRAM REVENUES     |                         |  |  | NET (EXPENSE) REVENUE AND<br>CHANGES IN NET ASSETS |                             |                        |
|---|----------------------|-------------------------|--|--|--|-----------------------------|------------------------|
|   | EXPENSES             | CHARGES FOR<br>SERVICES | OPERATING<br>GRANTS AND<br>CONTRIBUTIONS | CAPITAL<br>GRANTS AND<br>CONTRIBUTIONS | PRIMARY GOVERNMENT                                 |                             |                        |
|   |                      |                         |  |  | GOVERNMENTAL<br>ACTIVITIES                         | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                  |
| Governmental Activities:                |                      |                         |  |  |  |                             |                        |
| Instructional                           | \$ 11,251,668        | \$ 27,838               | \$ 3,562,071                             | \$ -                                   | \$ (7,661,759)                                     | \$ -                        | \$ (7,661,759)         |
| Support Services:                       |                      |                         |  |  |  |                             |                        |
| Student                                 | 439,367              | -                       | -  | -                                      | (439,367)  | -                           | (439,367)              |
| Instructional staff                     | 705,770              | -                       | -  | -                                      | (705,770)  | -                           | (705,770)              |
| District administration                 | 479,141              | -                       | -  | -                                      | (479,141)  | -                           | (479,141)              |
| School administration                   | 1,022,606            | -                       | -  | -                                      | (1,022,606)  | -                           | (1,022,606)            |
| Business                                | 703,507              | -                       | -  | -                                      | (703,507)  | -                           | (703,507)              |
| Plant operations and maintenance        | 1,914,123            | -                       | -  | -                                      | (1,914,123)  | -                           | (1,914,123)            |
| Student transportation                  | 1,141,080            | -                       | -  | -                                      | (1,141,080)  | -                           | (1,141,080)            |
| Non-instructional                       | 374,359              | -                       | -  | -                                      | (374,359)  | -                           | (374,359)              |
| Facilities acquisition and construction | 1,630,090            | -                       | -  | -                                      | (1,630,090)  | -                           | (1,630,090)            |
| Interest on long-term debt              | 597,210              | -                       | -  | -                                      | (597,210)  | -                           | (597,210)              |
| Total Governmental Activities           | 20,258,921           | 27,838                  | 3,562,071                                | -                                      | (16,669,012)                                       | -                           | (16,669,012)           |
| Business-type Activities:               |                      |                         |  |  |  |                             |                        |
| Food service                            | 1,541,094            | 671,850                 | 884,439                                  | -                                      | -  | 15,195                      | 15,195                 |
| Day care                                | 280,677              | 206,326                 | 61,466                                   | -                                      | -  | (12,885)                    | (12,885)               |
| Total Business Type Activities          | 1,821,771            | 878,176                 | 945,905                                  | -                                      | -  | 2,310                       | 2,310                  |
| Total School District                   | <u>\$ 22,080,692</u> | <u>\$ 906,014</u>       | <u>\$ 4,507,976</u>                      | <u>\$ -</u>                            | <u>\$ (16,669,012)</u>                             | <u>\$ 2,310</u>             | <u>\$ (16,666,702)</u> |
| General Revenues:                       |                      |                         |  |  |  |                             |                        |
| Taxes:                                  |                      |                         |  |  |  |                             |                        |
| Property                                |                      |                         |  |  | \$ 2,570,794                                       | \$ -                        | \$ 2,570,794           |
| Motor vehicle                           |                      |                         |  |  | 505,257  | -                           | 505,257                |
| Utilities                               |                      |                         |  |  | 950,629  | -                           | 950,629                |
| State and formula grants                |                      |                         |  |  | 14,356,127   | -                           | 14,356,127             |
| Interest and investment earnings        |                      |                         |  |  | 162,038  | 1,228                       | 163,266                |
| Gain(loss) on sale of fixed assets      |                      |                         |  |  | 6,625  | -                           | 6,625                  |
| Miscellaneous                           |                      |                         |  |  | 4,872  | 10,999                      | 15,871                 |
| Total General Revenues                  |                      |                         |  |  | <u>18,556,342</u>                                  | <u>12,227</u>               | <u>18,568,569</u>      |
| Change in Net Assets                    |                      |                         |  |  | 1,887,330  | 14,537                      | 1,901,867              |
| Net Assets July 1, 2004                 |                      |                         |  |  | 3,591,810  | 183,673                     | 3,775,483              |
| Prior Period Adjustment                 |                      |                         |  |  | <u>54,913</u>                                      | <u>-</u>                    | <u>54,913</u>          |
| Net Assets June 30, 2005                |                      |                         |  |  | <u>\$ 5,534,053</u>                                | <u>\$ 198,210</u>           | <u>\$ 5,732,263</u>    |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

|  | GENERAL<br>FUND     | SPECIAL<br>REVENUE<br>(GRANT)<br>FUNDS | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|--|---------------------|--|--------------------------------|--------------------------------|
| <b>ASSETS:</b>                             |                     |  |                                |                                |
| Cash and cash equivalents                  | \$ 3,560,719        | \$ -                                   | \$ 378,930                     | \$ 3,939,649                   |
| Accounts receivable                        |                     |  |                                |                                |
| Taxes                                      | 120,519             | -                                      | -                              | 120,519                        |
| Accounts                                   | 18,925              | -                                      | -                              | 18,925                         |
| Intergovernmental - state                  | -                   | 15,699                                 | -                              | 15,699                         |
| Intergovernmental - federal                | -                   | 305,748                                | -                              | 305,748                        |
| Prepaid expenses                           | 111,505             | -                                      | -                              | 111,505                        |
| <b>TOTAL ASSETS</b>                        | <b>\$ 3,811,668</b> | <b>\$ 321,447</b>                      | <b>\$ 378,930</b>              | <b>\$ 4,512,045</b>            |
| <b>LIABILITIES:</b>                        |                     |  |                                |                                |
| Accounts payable                           | \$ 56,150           | \$ 23,252                              | \$ -                           | \$ 79,402                      |
| Bank overdraft                             | -                   | 107,257                                | -                              | 107,257                        |
| Accrued sick leave                         | 8,424               | -                                      | -                              | 8,424                          |
| Deferred revenue                           | -                   | 190,938                                | -                              | 190,938                        |
| <b>TOTAL LIABILITIES</b>                   | <b>64,574</b>       | <b>321,447</b>                         | <b>-</b>                       | <b>386,021</b>                 |
| <b>FUND BALANCES:</b>                      |                     |  |                                |                                |
| Reserved for Other Purposes                |                     |  |                                |                                |
| Sick leave                                 | 144,149             | -                                      | -                              | 144,149                        |
| Construction                               | -                   | -                                      | 378,930                        | 378,930                        |
| Unreserved                                 | 3,602,945           | -                                      | -                              | 3,602,945                      |
| <b>TOTAL FUND BALANCES</b>                 | <b>3,747,094</b>    | <b>-</b>                               | <b>378,930</b>                 | <b>4,126,024</b>               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 3,811,668</b> | <b>\$ 321,447</b>                      | <b>\$ 378,930</b>              | <b>\$ 4,512,045</b>            |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005**

|  |                            |
|--|----------------------------|
| Total Governmental Fund Balances   | \$ 4,126,024               |
| Amounts reported for governmental activities in the<br>statement of net assets are different because:  |                            |
| Capital assets are not reported in the fund financial statement because<br>they are not current financial resources, but they are reported in<br>the statement of net assets.  | 13,858,517                 |
| Certain assets are not reported in this fund financial statement because<br>they are not available to pay current period expenditures, but<br>they are in the statement of net assets.   |                            |
| Bond discounts and issuance costs  | 52,144                     |
| Certain liabilities (such as bonds payable, the long-term portion of<br>accrued sick leave, and accrued interest) are not reported in the<br>fund financial statement because they are not due and payable,<br>but are presented in the statement of net assets. |                            |
| Bond and lease obligations   | (11,795,000)               |
| Notes payable  | (342,000)                  |
| Accrued interest   | (68,910)                   |
| Accrued sick leave   | <u>(296,722)</u>           |
| Net Assets of Governmental Activities  | \$ <u><u>5,534,053</u></u> |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

|  | GENERAL<br>FUND     | SPECIAL<br>REVENUE<br>(GRANT)<br>FUNDS | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|--|---------------------|--|--------------------------------|--------------------------------|
| REVENUES:  |                     |  |                                |                                |
| From local sources:  |                     |  |                                |                                |
| Taxes:   |                     |  |                                |                                |
| Property   | \$ 2,164,383        | \$ -                                   | \$ 406,411                     | \$ 2,570,794                   |
| Motor vehicle  | 505,257             | -                                      | -                              | 505,257                        |
| Utilities  | 950,629             | -                                      | -                              | 950,629                        |
| Tuition and fees   | 14,713              | 11,308                                 | -                              | 26,021                         |
| Earnings on investments  | 157,895             | 2,022                                  | 2,121                          | 162,038                        |
| Rental   | 12,753              | -                                      | -                              | 12,753                         |
| Other local revenues   | 5,135               | 105,011                                | -                              | 110,146                        |
| Intergovernmental - state  | 14,192,506          | 911,562                                | 725,137                        | 15,829,205                     |
| Intergovernmental - federal  | 34,588              | 1,641,558                              | -                              | 1,676,146                      |
| TOTAL REVENUES   | <u>18,037,859</u>   | <u>2,671,461</u>                       | <u>1,133,669</u>               | <u>21,842,989</u>              |
| EXPENDITURES:  |                     |  |                                |                                |
| Current:   |                     |  |                                |                                |
| Instruction:   | 10,461,648          | 2,152,133                              | -                              | 12,613,781                     |
| Support Services:  |                     |  |                                |                                |
| Student  | 436,463             | -                                      | -                              | 436,463                        |
| Instructional staff  | 641,176             | 55,007                                 | -                              | 696,183                        |
| District administration  | 472,632             | -                                      | -                              | 472,632                        |
| School administration  | 1,030,025           | 62                                     | -                              | 1,030,087                      |
| Business   | 526,643             | 182,939                                | -                              | 709,582                        |
| Plant operations and maintenance   | 2,097,406           | 3,350                                  | -                              | 2,100,756                      |
| Student transportation   | 1,138,665           | 8,106                                  | -                              | 1,146,771                      |
| Non-instructional  | 33,223              | 317,785                                | -                              | 351,008                        |
| Facilities acquisition and construction  | 60,131              | -                                      | 1,569,958                      | 1,630,089                      |
| Debt service   | 82,330              | -                                      | 887,144                        | 969,474                        |
| Other  | -                   | -                                      | -                              | -                              |
| TOTAL EXPENDITURES   | <u>16,980,342</u>   | <u>2,719,382</u>                       | <u>2,457,102</u>               | <u>22,156,826</u>              |
| Excess (Deficit) of Revenues over Expenditures   | <u>1,057,517</u>    | <u>(47,921)</u>                        | <u>(1,323,433)</u>             | <u>(313,837)</u>               |
| OTHER FINANCING SOURCES (USES):  |                     |  |                                |                                |
| Proceeds from sale of fixed assets/bonds   | 6,625               | -                                      | -                              | 6,625                          |
| Operating transfers in   | 56,675              | 90,594                                 | 305,260                        | 452,529                        |
| Operating transfers out  | (115,594)           | (42,673)                               | (305,260)                      | (463,527)                      |
| TOTAL OTHER FINANCING SOURCES (USES):  | <u>(52,294)</u>     | <u>47,921</u>                          | <u>-</u>                       | <u>(4,373)</u>                 |
| Excess (Deficit) of Revenues and Other Financing Sources<br>over Expenditures and Other Financing Uses | 1,005,223           | -                                      | (1,323,433)                    | (318,210)                      |
| Fund balance June 30, 2004   | <u>2,741,871</u>    | <u>-</u>                               | <u>1,702,363</u>               | <u>4,444,234</u>               |
| Fund balance June 30, 2005   | <u>\$ 3,747,094</u> | <u>\$ -</u>                            | <u>\$ 378,930</u>              | <u>\$ 4,126,024</u>            |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

**Net Change in Fund Balances - Total Governmental Funds** \$ (318,210)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.

|                      |           |
|----------------------|-----------|
| Capital outlays      | 2,172,642 |
| Depreciation expense | (823,923) |

Generally, expenditures recognized in the fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

|                            |         |
|----------------------------|---------|
| Interest on long-term debt | 14,668  |
| Compensated absences       | 176,922 |

Amortization of bond discounts and issuance costs are reported in the statement of activities but do not require current financial resources and therefore are not reported as expenditures in governmental funds. (2,769)

Long-term debt proceeds are reported as other financing resources in funds, thereby increasing fund balances. In the statement of net assets, however, issuing long-term debt increases liabilities and has no effect on net assets. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

|                       |         |
|-----------------------|---------|
| Debt principal repaid | 668,000 |
|-----------------------|---------|

**Change in Net Assets of Governmental Activities** **\$ 1,887,330**



**HARRISON COUNTY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL AND SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|  | GENERAL FUND     |              |              |  | SPECIAL REVENUE FUND |           |           |  |
|--|------------------|--------------|--------------|--|----------------------|-----------|-----------|--|
|  | BUDGETED AMOUNTS |              | ACTUAL       | VARIANCE<br>Favorable<br>(Unfavorable) | BUDGETED AMOUNTS     |           | ACTUAL    | VARIANCE<br>Favorable<br>(Unfavorable) |
|  | ORIGINAL         | FINAL        |              |  | ORIGINAL             | FINAL     |           |  |
| REVENUES:  |                  |              |              |  |                      |           |           |  |
| From local sources:  |                  |              |              |  |                      |           |           |  |
| Taxes:   |                  |              |              |  |                      |           |           |  |
| Property   | \$ 2,050,600     | \$ 2,118,000 | \$ 2,164,383 | \$ 46,383                              | \$ -                 | \$ -      | \$ -      | \$ -                                   |
| Motor vehicle  | 540,000          | 525,000      | 505,257      | (19,743)                               | -                    | -         | -         | -                                      |
| Utilities  | 850,000          | 900,000      | 950,629      | 50,629                                 | -                    | -         | -         | -                                      |
| Tuition and fees   | 14,600           | 14,600       | 14,713       | 113                                    | -                    | -         | 11,308    | 11,308                                 |
| Earnings on investments  | 75,000           | 90,000       | 157,895      | 67,895                                 | 1,000                | 1,000     | 2,022     | 1,022                                  |
| Community service activities   | -                | -            | 12,753       | 12,753                                 | -                    | -         | -         | -                                      |
| Other local revenues   | 14,000           | 17,000       | 5,135        | (11,865)                               | -                    | -         | 105,011   | 105,011                                |
| Intergovernmental - state  | 11,087,927       | 11,100,628   | 14,192,506   | 3,091,878                              | 932,084              | 941,803   | 911,562   | (30,241)                               |
| Intergovernmental - federal  | 3,000            | 2,500        | 34,588       | 32,088                                 | 1,536,273            | 1,667,239 | 1,641,558 | (25,681)                               |
| TOTAL REVENUES   | 14,635,127       | 14,767,728   | 18,037,859   | 3,270,131                              | 2,469,357            | 2,610,042 | 2,671,461 | 61,419                                 |
| EXPENDITURES:  |                  |              |              |  |                      |           |           |  |
| Current:   |                  |              |              |  |                      |           |           |  |
| Instruction:   | 8,543,417        | 8,517,972    | 10,461,648   | (1,943,676)                            | 1,916,611            | 2,044,719 | 2,152,133 | (107,414)                              |
| Support Services:  |                  |              |              |  |                      |           |           |  |
| Student  | 362,585          | 392,846      | 436,463      | (43,617)                               | -                    | -         | -         | -                                      |
| Instructional staff  | 391,704          | 414,150      | 641,176      | (227,026)                              | 55,520               | 57,413    | 55,007    | 2,406                                  |
| District administration  | 709,694          | 750,845      | 472,632      | 278,213                                | -                    | -         | -         | -                                      |
| School administration  | 917,864          | 926,593      | 1,030,025    | (103,432)                              | -                    | -         | 62        | (62)                                   |
| Business   | 442,961          | 532,600      | 526,643      | 5,957                                  | 212,188              | 212,188   | 182,939   | 29,249                                 |
| Plant operations and maintenance   | 1,650,669        | 2,267,599    | 2,097,406    | 170,193                                | -                    | -         | 3,350     | (3,350)                                |
| Student transportation   | 1,120,614        | 1,095,020    | 1,138,665    | (43,645)                               | 20,115               | 28,616    | 8,106     | 20,510                                 |
| Non-instructional  | 50,975           | 53,000       | 33,223       | 19,777                                 | 310,719              | 311,363   | 317,785   | (6,422)                                |
| Facilities acquisition and construction  | -                | 60,200       | 60,131       | 69                                     | -                    | -         | -         | -                                      |
| Debt service   | 82,330           | 82,330       | 82,330       | -                                      | -                    | -         | -         | -                                      |
| Other  | -                | -            | -            | -                                      | -                    | -         | -         | -                                      |
| TOTAL EXPENDITURES   | 14,272,813       | 15,093,155   | 16,980,342   | (1,887,187)                            | 2,515,153            | 2,654,299 | 2,719,382 | (65,083)                               |
| Excess (Deficit) of Revenues over Expenditures   | 362,314          | (325,427)    | 1,057,517    | 1,382,944                              | (45,796)             | (44,257)  | (47,921)  | (3,664)                                |
| OTHER FINANCING SOURCES (USES):  |                  |              |              |  |                      |           |           |  |
| Proceeds from sale of Assets/Bonds   | -                | -            | 6,625        | 6,625                                  | -                    | -         | -         | -                                      |
| Operating transfers in   | 130,025          | 72,337       | 56,675       | (15,662)                               | 105,594              | 105,594   | 90,594    | (15,000)                               |
| Operating transfers out  | (100,000)        | (105,594)    | (115,594)    | (10,000)                               | (59,798)             | (61,337)  | (42,673)  | 18,664                                 |
| TOTAL OTHER FINANCING SOURCES (USES):  | 30,025           | (33,257)     | (52,294)     | (19,037)                               | 45,796               | 44,257    | 47,921    | 3,664                                  |
| Excess (Deficit) of Revenues and Other Financing Sources<br>over Expenditures and Other Financing Uses | 392,339          | (358,684)    | 1,005,223    | 1,363,907                              | -                    | -         | -         | -                                      |
| Fund balance June 30, 2004   | 1,200,000        | 2,741,871    | 2,741,871    | -                                      | -                    | -         | -         | -                                      |
| Fund balance June 30, 2005   | \$ 1,592,339     | \$ 2,383,187 | \$ 3,747,094 | \$ 1,363,907                           | \$ -                 | \$ -      | \$ -      | \$ -                                   |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005**

|   | <u>FOOD SERVICE<br/>FUND</u> | <u>DAY CARE<br/>FUND</u> | <u>TOTAL</u>             |
|---|------------------------------|--------------------------|--------------------------|
| <b>ASSETS:</b>                                  |                              |                          |                          |
| Current Assets                                  |                              |                          |                          |
| Cash and cash equivalents                       | \$ 9,256                     | \$ -                     | \$ 9,256                 |
| Accounts receivable                             | 74,545                       | 21,766                   | 96,311                   |
| Inventory                                       | 31,767                       | -                        | 31,767                   |
| Total Current Assets                            | <u>115,568</u>               | <u>21,766</u>            | <u>137,334</u>           |
| Noncurrent Assets                               |                              |                          |                          |
| Machinery & equipment                           | 582,627                      | 1,200                    | 583,827                  |
| Accumulated depreciation                        | <u>(517,048)</u>             | <u>(1,200)</u>           | <u>(518,248)</u>         |
| Total Noncurrent Assets                         | <u>65,579</u>                | <u>-</u>                 | <u>65,579</u>            |
| <b>TOTAL ASSETS</b>                             | <b>\$ <u>181,147</u></b>     | <b>\$ <u>21,766</u></b>  | <b>\$ <u>202,913</u></b> |
| <b>LIABILITIES:</b>                             |                              |                          |                          |
| Current Liabilities                             |                              |                          |                          |
| Accounts payable                                | \$ 40                        | \$ 999                   | \$ 1,039                 |
| Bank overdraft                                  | <u>-</u>                     | <u>3,664</u>             | <u>3,664</u>             |
| Total Current Liabilities                       | <u>40</u>                    | <u>4,663</u>             | <u>4,703</u>             |
| Noncurrent Liabilities                          | <u>-</u>                     | <u>-</u>                 | <u>-</u>                 |
| <b>TOTAL LIABILITIES</b>                        | <b><u>40</u></b>             | <b><u>4,663</u></b>      | <b><u>4,703</u></b>      |
| <b>NET ASSETS:</b>                              |                              |                          |                          |
| Invested in capital assets, net of related debt | 65,579                       | -                        | 65,579                   |
| Unrestricted                                    | <u>115,528</u>               | <u>17,103</u>            | <u>132,631</u>           |
| <b>TOTAL NET ASSETS</b>                         | <b><u>181,107</u></b>        | <b><u>17,103</u></b>     | <b><u>198,210</u></b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b>\$ <u>181,147</u></b>     | <b>\$ <u>21,766</u></b>  | <b>\$ <u>202,913</u></b> |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|  | FOOD SERVICE<br>FUND     | DAY CARE<br>FUND        | TOTAL                    |
|--|--------------------------|-------------------------|--------------------------|
| OPERATING REVENUES:                          |                          |                         |                          |
| Lunchroom sales                              | \$ 668,170               | \$ -                    | \$ 668,170               |
| Federal grants                               | 730,872                  | 25,652                  | 756,524                  |
| Federal commodities                          | 78,724                   | -                       | 78,724                   |
| State grants                                 | 74,843                   | 35,814                  | 110,657                  |
| Other operating revenues                     | 3,680                    | 206,326                 | 210,006                  |
| TOTAL OPERATING REVENUES                     | <u>1,556,289</u>         | <u>267,792</u>          | <u>1,824,081</u>         |
| OPERATING EXPENSES:                          |                          |                         |                          |
| Salaries and wages                           | 617,679                  | 256,557                 | 874,236                  |
| Contract services                            | 41,092                   | 2,310                   | 43,402                   |
| Materials and supplies                       | 849,723                  | 21,081                  | 870,804                  |
| Property                                     | 14,030                   | -                       | 14,030                   |
| Miscellaneous                                | 1,996                    | 729                     | 2,725                    |
| Depreciation                                 | 16,574                   | -                       | 16,574                   |
| TOTAL OPERATING EXPENSES                     | <u>1,541,094</u>         | <u>280,677</u>          | <u>1,821,771</u>         |
| Operating income (loss)                      | 15,195                   | (12,885)                | 2,310                    |
| NON-OPERATING REVENUES (EXPENSES)            |                          |                         |                          |
| Interest income                              | <u>1,228</u>             | <u>-</u>                | <u>1,228</u>             |
| NON-OPERATING REVENUES (EXPENSES)            | <u>1,228</u>             | <u>-</u>                | <u>1,228</u>             |
| Net income (loss) before operating transfers | 16,423                   | (12,885)                | 3,538                    |
| Operating transfers (net)                    | <u>10,999</u>            | <u>-</u>                | <u>10,999</u>            |
| Change in net assets                         | 27,422                   | (12,885)                | 14,537                   |
| Total net assets June 30,2004                | <u>153,685</u>           | <u>29,988</u>           | <u>183,673</u>           |
| Total net assets June 30,2005                | <u><u>\$ 181,107</u></u> | <u><u>\$ 17,103</u></u> | <u><u>\$ 198,210</u></u> |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|   | FOOD SERVICE<br>FUND | DAY CARE<br>FUND   | TOTAL             |
|---|----------------------|--------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                      |                    |                   |
| Cash received from customers  | \$ 671,849           | \$ 202,320         | \$ 874,169        |
| Cash received from federal & state govt.  | 867,491              | 61,467             | 928,958           |
| Cash paid to suppliers  | (908,141)            | (28,026)           | (936,167)         |
| Cash paid to employees  | (617,680)            | (256,558)          | (874,238)         |
| Net Cash Provided (Used) by Operating Activities  | 13,519               | (20,797)           | (7,278)           |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>  |                      |                    |                   |
| Transfer in   | 25,000               | -                  |                   |
| Transfers (out)   | (14,001)             | -                  | (14,001)          |
| Net Cash Provided (Used) by Noncapital Financing Activities   | 10,999               | -                  | (14,001)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   | -                    | -                  | -                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                      |                    |                   |
| Interest received   | 1,228                | -                  | 1,228             |
| Purchase of fixed assets  | (9,300)              | -                  | (9,300)           |
| Net Cash Provided (Used) by Investing Activities  | (8,072)              | -                  | (8,072)           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>   | 16,446               | (20,797)           | (4,351)           |
| <b>Cash and cash equivalents June 30, 2004</b>  | (7,190)              | 17,133             | 9,943             |
| <b>Cash and cash equivalents June 30, 2005</b>  | <u>\$ 9,256</u>      | <u>\$ (3,664)</u>  | <u>\$ 5,592</u>   |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                      |                    |                   |
| Operating income (loss)   | \$ 15,195            | \$ (12,885)        | \$ 2,310          |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities:                            |                      |                    |                   |
| Depreciation  | 16,574               | -                  | 16,574            |
| Changes in Assets and Liabilities:  |                      |                    |                   |
| Accounts receivable   | (16,948)             | (4,006)            | (20,954)          |
| Inventory   | (1,342)              |                    |                   |
| Accounts payable  | 40                   | (3,906)            | (3,866)           |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 13,519</u>     | <u>\$ (20,797)</u> | <u>\$ (7,278)</u> |
| <b>Schedule of non-cash transactions:</b>   |                      |                    |                   |
| Donated commodities received from federal government  | <u>\$ 78,724</u>     | <u>\$ -</u>        | <u>\$ 78,724</u>  |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

|   | SPECIAL<br>PURPOSE<br>TRUST FUNDS | AGENCY<br>FUNDS          |
|---|-----------------------------------|--------------------------|
| ASSETS:                                 |                                   |                          |
| Cash and cash equivalents               | \$ 1,253,973                      | \$ 242,052               |
| Accounts receivable                     | <u>-</u>                          | <u>2,718</u>             |
| <b>TOTAL ASSETS</b>                     | <b>\$ <u>1,253,973</u></b>        | <b>\$ <u>244,770</u></b> |
| LIABILITIES:                            |                                   |                          |
| Accounts payable                        | \$ -                              | \$ 5,230                 |
| Due to student groups                   | <u>-</u>                          | <u>239,540</u>           |
| <b>TOTAL LIABILITIES</b>                | <u>-</u>                          | <u>244,770</u>           |
| NET ASSETS:                             |                                   |                          |
| Held in trust for other purposes        | <u>1,253,973</u>                  | <u>-</u>                 |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ <u>1,253,973</u></b>        | <b>\$ <u>244,770</u></b> |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|                              | <u>SPECIAL<br/>PURPOSE<br/>TRUST FUNDS</u> |
|------------------------------|--|
| ADDITIONS                    |  |
| Trust donations              | \$ 64,649                                  |
| Earnings on investments      | <u>40,486</u>                              |
| TOTAL ADDITIONS              | 105,135                                    |
| <br>DEDUCTIONS               |  |
| Scholarships awarded         | <u>38,425</u>                              |
| <br>Change in Net Assets     | 66,710                                     |
| <br>Net Assets July 1, 2004  | <u>1,187,263</u>                           |
| <br>Net Assets June 30, 2005 | \$ <u><u>1,253,973</u></u>                 |

See Auditor's Report and Accompanying Notes

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
DESCRIPTION OF FUNDS**

**A. REPORTING ENTITY**

The Harrison County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Harrison County School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all the funds and account groups relevant to the operation of the Harrison County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself, such as Boosters Club, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

**Harrison County Board of Education Finance Corporation** - In a prior year the Board of Education resolved to authorize the establishment of the Harrison County School District Finance Corporation (a non-stock, non-profit corporation organized under Section 162.385 of the School Bond Act and Chapter 273 and KRS 58.180) (the "Corporation") as an agency of the District for financing the costs of school building improvements. The Board members of the Harrison County Board of Education also comprise the Corporation's Board of Directors.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
DESCRIPTION OF FUNDS (contd.)**

**B. BASIS OF PRESENTATION**

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Board and for each function or program of the Board's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District's funds, including fiduciary funds. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determinable by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in the total net assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.



**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

The District has the following funds:

**I. Governmental Fund Types**

(A) The **General Fund** is the primary operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

(B) The **Special Revenue Fund** accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and the District's matching funds are being reported in the Special Revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purpose of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

(C) **Capital Project Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The following are Capital Project Funds:

- 1) The Support Education Excellence in Kentucky (SEEK) Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing capital acquisitions.
- 2) The FSPK Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
- 3) The Construction Fund includes Capital Project Fund Accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

- (D) The **Debt Service Fund** is a fund used to account for the accumulation of resources for, and the payment of, general long-term debt principle and interest and related cost: and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**II. Proprietary Fund Types (Enterprise Fund)**

- (A) The **Food Service Fund** accounts for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture ("USDA"). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

- (B) The **Day Care Fund** is used to account for child care revenue.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**III. Fiduciary Fund Type (Agency)**

- (A) The **Agency Fund** accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.
- (B) The Private Purpose Trust funds are used to report trust arrangements under which principal and income from funds provided by organizations or other governments benefit individuals.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

In the Government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues from local sources consist primarily of property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. Revenue is recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed to finance the General Fund operations for the year ended June 30, 2005, were \$.361 per \$100 valuation for real property, \$.395 per \$100 valuation for business personal property and \$.500 per \$100 valuation for motor vehicles. The assessed value upon which the levy for the 2005 fiscal year was based, was \$812,822,625.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephone and telegraph communications services, cablevisions services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

|                            |             |
|----------------------------|-------------|
| Buildings and improvements | 25-50 years |
| Land improvements          | 20 years    |
| Technology equipment       | 5 years     |
| Vehicles                   | 5-10 years  |
| Audio-visual equipment     | 15 years    |
| Food service equipment     | 10-12 years |
| Furniture and fixtures     | 7 years     |
| Other                      | 10 years    |

Interfund Balances

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of the accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net assets.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

Budgetary Process

The Board is required by state law to adopt annual budgets for the general fund, special revenue fund, debt service and capital projects funds. Each budget is presented on the modified accrual basis of accounting which is a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is revenues and expenses are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy; only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventory

Inventories consist of food purchased by the Board and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at cost (first-in, first-out) using the consumption method and commodities are assigned values based on information provided by the USDA.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

Bond Issue Costs

Costs associated with the issuance of bond obligations, including fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Encumbrance Accounting

Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Fund Balance Reserves

Portions of fund equity are segregated for future use and are therefore not available for future appropriation or expenditure for general use. Amounts reserved for encumbrances, compensated absences, and construction commitments represent portions of fund equity required to be segregated in accordance with state law or generally accepted accounting principles. Designations of unreserved fund balances in governmental funds indicate the utilization of these resources in the ensuing year's budget or tentative plans for future use.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
DESCRIPTION OF FUNDS (contd.)**

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as necessary.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.



**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (contd.)**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

At year end, the carrying amount of the District's cash and cash equivalents was \$5,334,010. Of the total cash balance, \$100,000 was covered by Federal Depository insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2005 consisted of the following:

|                 | <u>Bank<br/>Balance</u> | <u>Book<br/>Balance</u> |
|-----------------|-------------------------|-------------------------|
| Checking        | \$4,455,840             | \$3,837,984             |
| Fiduciary Funds | <u>1,507,462</u>        | <u>1,496,026</u>        |
|                 | <u>\$5,963,302</u>      | <u>\$5,334,010</u>      |

Breakdown per financial statements:

|                    |                    |
|--------------------|--------------------|
| Governmental funds | \$3,832,392        |
| Proprietary funds  | 5,592              |
| Trust Funds        | 1,253,973          |
| Agency funds       | <u>242,053</u>     |
|                    | <u>\$5,334,010</u> |

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

|                                 | Beginning<br>Balance | Additions          | Deletions          | Ending<br>Balance    |
|---------------------------------|----------------------|--------------------|--------------------|----------------------|
| <b>Governmental Activities:</b> |                      |                    |                    |                      |
| Land                            | \$ 399,371           | \$ 305,000         | \$ 0               | \$ 704,371           |
| Land Improvements               | 0                    | 76,900             | 0                  | 76,900               |
| Buildings & Improvements        | 21,464,554           | 1,626,118          | 0                  | 23,090,672           |
| Technology Equipment            | 1,584,783            | 89,959             | (20,364)           | 1,654,378            |
| Vehicles                        | 2,313,572            | 118,043            | (217,900)          | 2,213,715            |
| General Equipment               | 281,092              | 81,427             | (10,867)           | 351,652              |
| Construction in Progress        | 294,469              | 325,279            | (294,469)          | 325,279              |
| Total Historical Cost           | 26,337,841           | 2,622,726          | (543,600)          | 28,416,967           |
| Accumulated Depreciation        | (13,983,659)         | (823,923)          | 249,131            | (14,558,451)         |
| Capital Assets – Net            | <u>\$ 12,354,182</u> | <u>\$1,798,803</u> | <u>(\$294,469)</u> | <u>\$ 13,858,516</u> |
| <b>Business Activities:</b>     |                      |                    |                    |                      |
| Technological Equipment         | \$ 21,944            | \$ 9,300           | \$ 0               | \$ 31,244            |
| General Equipment               | 552,583              | 0                  | 0                  | 552,583              |
| Total Historical Cost           | 574,527              | 9,300              | 0                  | 583,827              |
| Accumulated Depreciation        | (501,673)            | 0                  | (16,574)           | (518,247)            |
| Capital Assets – Net            | <u>\$ 72,854</u>     | <u>\$ 9,300</u>    | <u>(\$16,574)</u>  | <u>\$ 65,580</u>     |

Depreciation expense was charged to functions of the governmental activities of the District as follows:

|   |                   |
|---|-------------------|
| <b>Governmental Activities:</b>                     |                   |
| Instruction   | \$ 594,936        |
| Support Services:                                   |                   |
| Student   | 10,613            |
| Instructional staff                                 | 16,532            |
| District administration                             | 7,398             |
| School administration                               | 1,183             |
| Business  | 11,438            |
| Plant operations & maintenance                      | 46,119            |
| Student transportation                              | 112,352           |
| Non-instructional                                   | 23,352            |
| Total depreciation expense, governmental activities | <u>\$ 823,923</u> |

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 3 - CAPITAL ASSETS (contd.)**

Construction Commitments

At June 30, 2005, the District's commitments for several long-term construction and remodeling projects include costs to date of \$325,279 and expected cost to complete of \$314,352.

**NOTE 4 - BONDED DEBT AND LEASE OBLIGATIONS**

Bonds

The District, through the General Fund, the Construction Fund, the Building Fund, and the SEEK Capital Outlay Fund are obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Harrison School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "Participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The original amount of the issue, the issue dates, and interest rates are summarized as follows:

| <u>Issue Date</u> | <u>Proceeds</u>      | <u>Rates</u> | <u>Outstanding<br/>Balance<br/>June 30, 2005</u> |
|-------------------|----------------------|--------------|--|
| 1996              | \$ 2,340,000         | 4.125-5.10%  | \$ 1,285,000                                     |
| 1998              | 1,710,000            | 4.10-4.15%   | 980,000  |
| 1998R             | 2,200,000            | 3.90-5.00%   | 1,605,000  |
| 1998R-2           | 3,165,000            | 3.50-4.20%   | 2,260,000  |
| 1999              | 1,160,000            | 3.90-5.00%   | 900,000  |
| 2001              | 1,130,000            | 3.90-5.00%   | 1,070,000  |
| 2003              | 1,540,000            | 1.25-4.18%   | 1,490,000  |
| 2003R             | 320,000              | 1.30-3.30%   | 260,000  |
| 2004              | 1,635,000            | 2.55-4.90%   | 1,580,000  |
|                   | <u>\$ 15,200,000</u> |              | <u>\$ 11,430,000</u>                             |

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 4 - BONDED DEBT AND LEASE OBLIGATIONS (contd.)**

On February 1, 2005, the District purchased real property for \$400,000, paying \$58,000 at the time of purchase and issuing a note for \$342,000. The note carries a 0% interest rate and is payable in annual installments of \$57,000 on February 1<sup>st</sup> of the next six years.

The bond may be called prior to maturity dates at redemption premiums specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2005, for debt service, (principal and interest) are shown below:

|             | Harrison County<br>School District |                    | Kentucky School Construction<br>Commission |                    |                     |
|-------------|------------------------------------|--------------------|--|--------------------|---------------------|
| <u>YEAR</u> | <u>PRINCIPAL</u>                   | <u>INTEREST</u>    | <u>PRINCIPAL</u>                           | <u>INTEREST</u>    | <u>TOTAL</u>        |
| 2006        | 530,891                            | 366,503            | 179,109                                    | 108,113            | 1,184,616           |
| 2007        | 550,475                            | 344,803            | 184,525                                    | 104,766            | 1,184,569           |
| 2008        | 571,294                            | 320,675            | 173,706                                    | 101,175            | 1,166,850           |
| 2009        | 600,320                            | 295,846            | 179,680                                    | 96,806             | 1,172,652           |
| 2010        | 623,908                            | 269,877            | 186,092                                    | 92,079             | 1,171,956           |
| 2011        | 652,083                            | 242,267            | 192,917                                    | 87,222             | 1,174,489           |
| 2012        | 684,801                            | 208,814            | 200,199                                    | 81,457             | 1,175,271           |
| 2013        | 714,217                            | 179,906            | 190,783                                    | 73,583             | 1,160,489           |
| 2014        | 489,253                            | 160,324            | 150,747                                    | 70,082             | 870,406             |
| 2015        | 514,242                            | 136,984            | 145,758                                    | 63,641             | 860,625             |
| 2016        | 542,561                            | 112,028            | 152,439                                    | 57,047             | 864,075             |
| 2017        | 453,603                            | 85,971             | 141,397                                    | 50,073             | 731,044             |
| 2018        | 462,843                            | 64,696             | 147,157                                    | 43,527             | 718,223             |
| 2019        | 304,908                            | 42,710             | 135,092                                    | 36,673             | 519,383             |
| 2020        | 199,330                            | 28,145             | 140,670                                    | 31,094             | 399,239             |
| 2021        | 208,411                            | 18,857             | 146,589                                    | 25,175             | 399,032             |
| 2022        | 71,999                             | 9,002              | 153,001                                    | 18,764             | 252,766             |
| 2023        | 75,266                             | 5,830              | 159,734                                    | 12,032             | 252,862             |
| 2024        | 74,046                             | 2,563              | 145,954                                    | 5,348              | 227,911             |
| Total       | <u>\$8,324,451</u>                 | <u>\$2,895,801</u> | <u>\$3,105,549</u>                         | <u>\$1,160,657</u> | <u>\$15,486,458</u> |

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 4 - BONDED DEBT AND LEASE OBLIGATIONS (contd.)**

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2005:

|                          | Beginning<br>Balance | Additions | Payments  | Ending<br>Balance |
|--------------------------|----------------------|-----------|-----------|-------------------|
| General Obligation Bonds | \$12,115,000         | \$0       | \$685,000 | \$11,430,000      |
| Notes Payable            | 0                    | 342,000   | 0         | 342,000           |
| Capital Leases           | 425,000              |           | 60,000    | 365,000           |

Capital Leases

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to bonds issued by the Harrison County School District Finance Corporation, with original amounts of issue totaling \$660,000.

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the minimum lease payments as of June 30, 2005:

| <u>Year Ending June 30,</u>                    | <u>Capital lease payable</u> |
|--|------------------------------|
| 2006   | \$ 84,210                    |
| 2007   | 85,830                       |
| 2008   | 87,190                       |
| 2009   | 83,215                       |
| 2010   | <u>84,240</u>                |
| Total minimum lease payments                   | \$424,685                    |
| Less: Amount of interest                       | <u>( 59,685)</u>             |
| Present value of net minimum<br>Lease payments | <u><u>\$365,000</u></u>      |

Non-capital Leases

Commitments under operating lease agreements for office equipment provide for the minimum future rental payments as of June 30, 2005 as follows:

|                      |          |
|----------------------|----------|
| Year ending June 30: |          |
| 2006                 | \$95,886 |
| 2007                 | 72,588   |
| 2008                 | 58,584   |

Rent expense for the year ended June 30, 2005 was \$95,886.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 5 - RETIREMENT PLAN**

Plan Descriptions

The District contributes to the Kentucky Teachers' Retirement System (KTRS), a cost sharing, multiple-employer, defined benefit pension plan, for the District's certified employees. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes the financial statements and required supplementary information for the defined benefit plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system.

Funding Policies

Contribution rates for KTRS are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of members' salaries. The federal program that pays for salaries also pays the matching contributions. KTRS requires that members occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Funding for CERS is provided through payroll withholdings of 5% and a Board contribution of 8.48% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$12,953,391. The payroll for employees covered under KTRS was \$9,609,148 and for CERS \$ 3,344,243.

The contribution requirement to KTRS for the year ended June 30, 2005 was \$1,142,465 from the Commonwealth of Kentucky, \$946,949 from the District's employees and \$116,771 from the District, which represents those employees covered by federal programs.

The contribution requirement for CERS for the year ended June 30, 2005 was \$449,837, which consisted of \$282,625 from the Board and \$167,212 from the employees.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 5 - RETIREMENT PLANS (contd.)**

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited, projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

|                                   | KTRS<br>June 30, 2004 | CERS<br>June 30, 2004 |
|-----------------------------------|-----------------------|-----------------------|
| Net assets available for benefits | \$ 14,255,100,000     | \$ 6,397,726,506      |
| Pension benefit obligation        | 17,617,600,000        | 7,453,191,207         |
| Over(under)funded pension benefit | \$ (3,362,500,000)    | \$ (1,055,464,701)    |

Ten-year historical trend information, showing KTRS and CERS progress in accumulating sufficient assets to pay benefits when due, is presented in the June 30, 2004 comprehensive annual financial reports.

As the District is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the District's portion of the plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 6- CONTINGENCIES**

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. If, based upon the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of monies advanced, or to refuse to reimburse the Board for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

**NOTE 7 - INSURANCE AND RELATED ACTIVITIES**

The district is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The district has purchased certain policies, which are retrospectively rated and include worker's compensation insurance.

**NOTE 8- RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual Premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage or for any reason, by giving ninety days notice. In the event the Trust terminated coverage, any amount remaining in the Fund would be returned to the member on a pro rata basis.



**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 8- RISK MANAGEMENT**

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past several fiscal years.

**NOTE 9 - DEFICIT OPERATING/ FUND BALANCES**

There were no funds operating at a deficit fund balance at June 30, 2005. However, several funds had operations that resulted in a current year deficit of revenues over expenditures resulting in the following reductions of fund balance:

|                   |              |
|-------------------|--------------|
| Construction Fund | \$ 1,567,837 |
| Day Care Fund     | 12,885       |

**NOTE 10- COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management's opinion that the District is in compliance with the COBRA requirements.

**NOTE 11 - TRANSFER OF FUNDS**

The following transfers were made during the year:

| Type      | From Fund       | To Fund         | Purpose            | Amount   |
|-----------|-----------------|-----------------|--------------------|----------|
| Operating | General         | Special Revenue | Tech. Match        | \$89,594 |
| Operating | General         | Special Revenue | Grant Receipt      | 1,000    |
| Equity    | General         | Food Service    | Equipment Purchase | 25,000   |
| Operating | Special Revenue | General         | Cost Reimbursement | 42,674   |
| Operating | Capital Outlay  | Construction    | Construction       | 242,735  |
| Operating | Building        | Construction    | Construction       | 62,525   |
| Operating | Food Service    | General         | Cost Reimbursement | 14,001   |

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 12 - ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky contributes funds on behalf of the District for medical insurance and related expenses, pension contributions and vocational education. The School Facilities Construction Commission contributes funds for the retirement of bonds and payment of interest on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts as reported on the statement of activities and in the actual column on the budgetary comparison schedule. However, these amounts were not included in the budgeted amounts. Contributions made on behalf of the District for the year ended June 30, 2005 were:

|                                |                     |
|--------------------------------|---------------------|
| Insurance and related expenses | \$ 1,532,217        |
| Pension contributions          | 1,142,465           |
| Vocational education           | 462,233             |
| Bond retirement and interest   | 307,635             |
| Total on behalf payments       | <u>\$ 3,444,550</u> |

**NOTE 13- PRIOR PERIOD ADJUSTMENT**

The financial statements include a prior period adjustment to record bond discounts and issuance costs of \$54,913 that were not recorded in the years the bonds were issued.

**HARRISON COUNTY SCHOOL DISTRICT**  
**SUPPLEMENTAL INFORMATION**

**HARRISON COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005**

|  | SEEK<br>CAPITAL<br>OUTLAY | BUILDING<br>FUND | CONSTRUCTION<br>FUND | DEBT SERVICE<br>FUND - SFCC | TOTAL<br>NONMAJOR<br>GOVERNMENTAL<br>FUNDS |
|--|---------------------------|------------------|----------------------|-----------------------------|--|
| <b>ASSETS:</b>                                 |                           |                  |                      |                             |  |
| Cash and cash equivalents                      | \$ -                      | \$ 22,657        | \$ 356,273           | \$ -                        | \$ 378,930                                 |
| Accounts receivable                            |                           |                  |                      |                             |  |
| Taxes - current                                | -                         | -                | -                    | -                           | -  |
| Taxes - delinquent                             | -                         | -                | -                    | -                           | -  |
| Accounts                                       | -                         | -                | -                    | -                           | -  |
| Intergovernmental - state                      | -                         | -                | -                    | -                           | -  |
| Intergovernmental - federal                    | -                         | -                | -                    | -                           | -  |
| Other Assets                                   | -                         | -                | -                    | -                           | -  |
| <b>TOTAL ASSETS</b>                            | <b>\$ -</b>               | <b>\$ 22,657</b> | <b>\$ 356,273</b>    | <b>\$ -</b>                 | <b>\$ 378,930</b>                          |
| <b>LIABILITIES:</b>                            |                           |                  |                      |                             |  |
| Bank overdraft                                 | \$ -                      | \$ -             | \$ -                 | \$ -                        | \$ -                                       |
| Accounts payable                               | -                         | -                | -                    | -                           | -  |
| Accrued payroll                                |                           |                  |                      |                             |  |
| and related expenses                           | -                         | -                | -                    | -                           | -  |
| Deferred revenues                              | -                         | -                | -                    | -                           | -  |
| Obligation under capital leases                | -                         | -                | -                    | -                           | -  |
| <b>TOTAL LIABILITIES</b>                       | <b>-</b>                  | <b>-</b>         | <b>-</b>             | <b>-</b>                    | <b>-</b>                                   |
| <b>FUND BALANCES:</b>                          |                           |                  |                      |                             |  |
| Reserved                                       | -                         | 22,657           | 356,273              | -                           | 378,930                                    |
| Unreserved                                     | -                         | -                | -                    | -                           | -  |
| <b>TOTAL FUND BALANCES</b>                     | <b>-</b>                  | <b>22,657</b>    | <b>356,273</b>       | <b>-</b>                    | <b>378,930</b>                             |
| <b>TOTAL LIABILITIES AND<br/>FUND BALANCES</b> | <b>\$ -</b>               | <b>\$ 22,657</b> | <b>\$ 356,273</b>    | <b>\$ -</b>                 | <b>\$ 378,930</b>                          |

**HARRISON COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|   | SEEK<br>CAPITAL<br>OUTLAY | BUILDING<br>FUND | CONSTRUCTION<br>FUND | DEBT SERVICE<br>FUND - SFCC | TOTAL<br>NONMAJOR<br>GOVERNMENTAL<br>FUNDS |
|---|---------------------------|------------------|----------------------|-----------------------------|--|
| REVENUES:   |                           |                  |                      |                             |  |
| From local sources:   |                           |                  |                      |                             |  |
| Taxes:  |                           |                  |                      |                             |  |
| Property  | \$ -                      | \$ 406,411       | \$ -                 | \$ -                        | \$ 406,411                                 |
| Motor vehicle   | -                         | -                | -                    | -                           | -  |
| Utilities   | -                         | -                | -                    | -                           | -  |
| Tuition and fees  | -                         | -                | -                    | -                           | -  |
| Earnings on investments   | -                         | -                | 2,121                | -                           | 2,121                                      |
| Other local revenues  | -                         | -                | -                    | -                           | -  |
| Intergovernmental - state   | 287,560                   | 437,577          | -                    | 307,635                     | 725,137                                    |
| Intergovernmental - federal   | -                         | -                | -                    | -                           | -  |
| TOTAL REVENUES  | 287,560                   | 843,988          | 2,121                | 307,635                     | 1,133,669                                  |
| EXPENDITURES:   |                           |                  |                      |                             |  |
| Current:  |                           |                  |                      |                             |  |
| Instruction:  | -                         | -                | -                    | -                           | -  |
| Support Services:   |                           |                  |                      |                             |  |
| Student   | -                         | -                | -                    | -                           | -  |
| Instructional staff   | -                         | -                | -                    | -                           | -  |
| District administration   | -                         | -                | -                    | -                           | -  |
| School administration   | -                         | -                | -                    | -                           | -  |
| Business  | -                         | -                | -                    | -                           | -  |
| Plant operations and maintenance  | -                         | -                | -                    | -                           | -  |
| Student transportation  | -                         | -                | -                    | -                           | -  |
| Central office  | -                         | -                | -                    | -                           | -  |
| Non-instructional   | -                         | -                | -                    | -                           | -  |
| Facilities acquisition and construction   | -                         | -                | 1,569,958            | -                           | 1,569,958                                  |
| Debt service  | 128,338                   | 758,806          | -                    | 307,635                     | 887,144                                    |
| Other   | -                         | -                | -                    | -                           | -  |
| TOTAL EXPENDITURES  | 128,338                   | 758,806          | 1,569,958            | 307,635                     | 2,457,102                                  |
| Excess (Deficit) of Revenues over Expenditures  | 159,222                   | 85,182           | (1,567,837)          | -                           | (1,323,433)                                |
| OTHER FINANCING SOURCES (USES):   |                           |                  |                      |                             |  |
| Proceeds from sale of assets/bonds  | -                         | -                | -                    | -                           | -  |
| Operating transfers in  | -                         | -                | 305,260              | -                           | 305,260                                    |
| Operating transfers out   | (242,735)                 | (62,525)         | -                    | -                           | (305,260)                                  |
| TOTAL OTHER FINANCING SOURCES (USES):   | (242,735)                 | (62,525)         | 305,260              | -                           | -  |
| Excess (Deficit) of Revenues and<br>Other Financing Sources<br>over Expenditures and Other Financing Uses | (83,513)                  | 22,657           | (1,262,577)          | -                           | (1,323,433)                                |
| Fund balance June 30, 2004  | 83,513                    | -                | 1,618,850            | -                           | 1,702,363                                  |
| Fund balance June 30, 2005  | \$ -                      | \$ 22,657        | \$ 356,273           | \$ -                        | \$ 378,930                                 |

**HARRISON COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND FUND BALANCES - SCHOOL ACTIVITY FUNDS  
Year Ended June 30, 2005**

|                          | Cash<br>Balances<br>June 30,<br>2004 | Receipts          | Disbursements     | Cash<br>Balances<br>June 30,<br>2005 | Fund<br>Balances<br>June 30,<br>2004 | Accounts<br>Receivable<br>June 30,<br>2005 | Accounts<br>Payable<br>June 30,<br>2005 | Net Effect<br>of Change<br>in Accounting<br>Principle | Fund<br>Balances<br>June 30,<br>2005 |
|--------------------------|--------------------------------------|-------------------|-------------------|--------------------------------------|--------------------------------------|--|---|---|--------------------------------------|
| Harrison Co. High School | \$ 160,715                           | \$ 484,324        | 532,160           | \$ 112,879                           | \$ 160,712                           | \$ 895                                     | \$ 354                                  | \$ 3  | \$ 113,420                           |
| Harrison Co. Middle      | 75,263                               | 161,807           | 188,013           | 49,057                               | 75,263                               | 237  | 3,962                                   | -   | 45,332                               |
| Eastside Elementary      | 30,036                               | 20,435            | 22,015            | 28,456                               | 30,036                               | -  | 705                                     | -   | 27,751                               |
| Northside Elementary     | 12,572                               | 48,739            | 42,104            | 19,207                               | 12,572                               | -  | -                                       | -   | 19,207                               |
| Southside Elementary     | 18,705                               | 25,589            | 21,854            | 22,440                               | 18,705                               | -  | -                                       | -   | 22,440                               |
| Westside Elementary      | 18,995                               | 26,631            | 35,613            | 10,013                               | 18,995                               | 1,586                                      | 209                                     | -   | 11,390                               |
| FRYSC                    | <u>6,185</u>                         | <u>11,425</u>     | <u>12,193</u>     | <u>5,417</u>                         | <u>6,185</u>                         | <u>-</u>                                   | <u>-</u>                                | <u>-</u>  | <u>5,417</u>                         |
|                          | <u>\$ 141,536</u>                    | <u>\$ 767,525</u> | <u>\$ 841,759</u> | <u>\$ 242,052</u>                    | <u>\$ 137,438</u>                    | <u>\$ 2,718</u>                            | <u>\$ 5,230</u>                         | <u>\$ 3</u>   | <u>\$ 239,540</u>                    |

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
HARRISON COUNTY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2005**

| ACCOUNTS:                 | Cash<br>Balances<br>June 30,<br>2004 | Receipts          | Disbursements     | Cash<br>Balances<br>June 30,<br>2005 | Fund<br>Balances<br>June 30,<br>2004 | Accounts<br>Receivable<br>June 30,<br>2005 | Accounts<br>Payable<br>June 30,<br>2005 | Net Effect<br>of Change<br>in Accounting<br>Principle | Fund<br>Balances<br>June 30,<br>2005 |
|---------------------------|--------------------------------------|-------------------|-------------------|--------------------------------------|--------------------------------------|--|---|---|--------------------------------------|
| AFJROTC                   | \$ 7,566                             | \$ 3,661          | \$ 7,970          | \$ 3,257                             | \$ 7,566                             | \$ -                                       | \$ -                                    | \$ -  | \$ 3,257                             |
| Annual Fund               | 21,418                               | 26,006            | 43,069            | 4,355                                | 21,418                               | -  | -                                       | -   | 4,355                                |
| Art Club                  | 2,287                                | 587               | 565               | 2,309                                | 2,287                                | -  | -                                       | -   | 2,309                                |
| Art Class Fees            | -                                    | 1,220             | 1,216             | 4                                    | -                                    | -  | -                                       | -   | 4                                    |
| Athletic Director         | 15,598                               | 22,009            | 34,714            | 2,893                                | 15,598                               | -  | -                                       | -   | 2,893                                |
| Baseball                  | 3,541                                | 18,790            | 18,448            | 3,883                                | 3,541                                | 753  | -                                       | -   | 4,636                                |
| Baseball Billboard        | -                                    | 10,775            | 10,775            | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Boys Basketball           | 3,078                                | 28,940            | 23,328            | 8,690                                | 3,078                                | -  | -                                       | -   | 8,690                                |
| Girls Basketball          | 326                                  | 15,192            | 11,218            | 4,300                                | 326                                  | -  | -                                       | -   | 4,300                                |
| Boys Soccer               | -                                    | 2,707             | 2,475             | 232                                  | -                                    | -  | -                                       | -   | 232                                  |
| Boys Varsity Cheerleader  | 251                                  | 5,176             | 5,028             | 399                                  | 251                                  | -  | -                                       | -   | 399                                  |
| Ken's Hilltop Market      | 2,247                                | 17,034            | 16,228            | 3,053                                | 2,247                                | -  | -                                       | -   | 3,053                                |
| Foreign Language Club     | 1,986                                | 20                | 154               | 1,852                                | 1,986                                | -  | -                                       | -   | 1,852                                |
| Well Read Breds Book      | -                                    | 415               | -                 | 415                                  | -                                    | -  | -                                       | -   | 415                                  |
| Softball                  | 1,245                                | 4,356             | 3,755             | 1,846                                | 1,245                                | -  | -                                       | -   | 1,846                                |
| Cross Country             | 37                                   | 1,246             | 885               | 398                                  | 37                                   | -  | -                                       | -   | 398                                  |
| Football                  | 8,991                                | 22,261            | 25,060            | 6,192                                | 8,991                                | -  | -                                       | -   | 6,192                                |
| Boys Golf                 | 166                                  | 280               | 208               | 238                                  | 166                                  | -  | -                                       | -   | 238                                  |
| Tennis                    | -                                    | 4,028             | 3,692             | 336                                  | -                                    | -  | -                                       | -   | 336                                  |
| Boys Track                | 400                                  | 2,649             | 3,004             | 45                                   | 400                                  | -  | -                                       | -   | 45                                   |
| Girls Track               | 485                                  | 1,088             | 1,239             | 334                                  | 485                                  | -  | -                                       | -   | 334                                  |
| Volleyball                | -                                    | 3,134             | 3,064             | 70                                   | -                                    | -  | -                                       | -   | 70                                   |
| Wrestling                 | -                                    | 3,730             | 3,316             | 414                                  | -                                    | -  | -                                       | -   | 414                                  |
| Band Funs                 | 363                                  | -                 | -                 | 363                                  | 363                                  | -  | -                                       | -   | 363                                  |
| Beta Club                 | 72                                   | 2,000             | 665               | 1,407                                | 72                                   | -  | -                                       | -   | 1,407                                |
| Regional Tournament       | 3,587                                | -                 | 3,587             | -                                    | 3,587                                | -  | -                                       | -   | -                                    |
| Chorus                    | 433                                  | 15,987            | 16,096            | 324                                  | 433                                  | -  | -                                       | -   | 324                                  |
| Computer Class Fess       | 300                                  | -                 | 296               | 4                                    | 300                                  | -  | -                                       | -   | 4                                    |
| STLP Technology Club      | -                                    | -                 | -                 | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Concessions Athletic      | 2,376                                | 13,233            | 12,527            | 3,082                                | 2,376                                | -  | -                                       | -   | 3,082                                |
| Teachers Drink Fund       | 19                                   | 2,723             | 2,539             | 203                                  | 19                                   | -  | -                                       | -   | 203                                  |
| Counselors Fund           | -                                    | 3,487             | 3,487             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Volleyball District       | -                                    | -                 | -                 | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Drama                     | 257                                  | 471               | 317               | 411                                  | 257                                  | -  | -                                       | -   | 411                                  |
| Drink Fund                | 213                                  | 2,560             | 1,939             | 834                                  | 213                                  | -  | -                                       | -   | 834                                  |
| FCA                       | 230                                  | -                 | 163               | 67                                   | 230                                  | -  | -                                       | -   | 67                                   |
| FFA                       | 5,527                                | 20,903            | 23,621            | 2,809                                | 5,527                                | -  | -                                       | -   | 2,809                                |
| Ag. Shop                  | 200                                  | -                 | -                 | 200                                  | 200                                  | -  | -                                       | -   | 200                                  |
| FFA Soil Conservation     | 4,609                                | 2,128             | 2,943             | 3,794                                | 4,609                                | -  | -                                       | -   | 3,794                                |
| FCCLA                     | 1,147                                | 175               | 904               | 418                                  | 1,147                                | -  | -                                       | -   | 418                                  |
| Boys Regional Basketball  | -                                    | 320               | 320               | -                                    | -                                    | -  | -                                       | -   | -                                    |
| General                   | 19,339                               | 83,050            | 82,852            | 19,537                               | 19,339                               | 142  | 354                                     | -   | 19,325                               |
| General Student Fees      | 139                                  | -                 | 139               | -                                    | 139                                  | -  | -                                       | -   | -                                    |
| Family & Consumer Science | -                                    | 750               | 599               | 151                                  | -                                    | -  | -                                       | -   | 151                                  |
| Industrial Arts           | 3                                    | -                 | -                 | 3                                    | 3                                    | -  | -                                       | -   | 3                                    |
| Journalism                | 152                                  | -                 | -                 | 152                                  | 152                                  | -  | -                                       | -   | 152                                  |
| Jr. Class                 | 831                                  | 18,304            | 19,136            | (1)                                  | 831                                  | -  | -                                       | -   | (1)                                  |
| Library                   | 795                                  | 784               | 1,136             | 443                                  | 795                                  | -  | -                                       | -   | 443                                  |
| Greenhouse                | 6,303                                | 4,915             | 6,410             | 4,808                                | 6,303                                | -  | -                                       | -   | 4,808                                |
| English Department        | 1                                    | 1,627             | 1,628             | -                                    | 1                                    | -  | -                                       | -   | -                                    |
| Sec. Princ. Assoc.        | 1,291                                | -                 | 115               | 1,176                                | 1,291                                | -  | -                                       | -   | 1,176                                |
| Pep Club                  | -                                    | -                 | -                 | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Project Graduation        | 4,941                                | 19,420            | 21,209            | 3,152                                | 4,941                                | -  | -                                       | -   | 3,152                                |
| Physical Education        | 37                                   | 2,020             | 2,057             | -                                    | 37                                   | -  | -                                       | -   | -                                    |
| Math Department           | 25                                   | 1,618             | 1,608             | 35                                   | 25                                   | -  | -                                       | -   | 35                                   |
| AP English                | 30                                   | -                 | -                 | 30                                   | 30                                   | -  | -                                       | -   | 30                                   |
| Biology Club              | 239                                  | 368               | 335               | 272                                  | 239                                  | -  | -                                       | -   | 272                                  |
| Science Lab Fees          | 663                                  | 2,750             | 3,230             | 183                                  | 663                                  | -  | -                                       | -   | 183                                  |
| Senior Class              | 53                                   | 47,578            | 47,456            | 175                                  | 53                                   | -  | -                                       | -   | 175                                  |
| Project Lead the Way      | -                                    | 3,000             | 2,995             | 5                                    | -                                    | -  | -                                       | -   | 5                                    |
| <b>SUBTOTALS</b>          | <b>\$ 123,797</b>                    | <b>\$ 445,475</b> | <b>\$ 479,720</b> | <b>\$ 89,552</b>                     | <b>\$ 123,797</b>                    | <b>\$ 895</b>                              | <b>\$ 354</b>                           | <b>\$ -</b>   | <b>\$ 90,093</b>                     |

**HARRISON COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
HARRISON COUNTY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2005**

| ACCOUNTS:                 | Cash<br>Balances<br>June 30,<br>2004 | Receipts   | Disbursements | Cash<br>Balances<br>June 30,<br>2005 | Fund<br>Balances<br>June 30,<br>2004 | Accounts<br>Receivable<br>June 30,<br>2005 | Accounts<br>Payable<br>June 30,<br>2005 | Net Effect<br>of Change<br>in Accounting<br>Principle | Fund<br>Balances<br>June 30,<br>2005 |
|---------------------------|--------------------------------------|------------|---------------|--------------------------------------|--------------------------------------|--|---|---|--------------------------------------|
| SUBTOTALS                 | \$ 123,797                           | \$ 445,475 | \$ 479,720    | \$ 89,552                            | \$ 123,797                           | \$ 895                                     | \$ 354                                  | \$ -  | \$ 90,093                            |
| Spanish Club              | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Special Ed.               | 46                                   | 1,008      | 1,054         | -                                    | 46                                   | -  | -                                       | -   | -                                    |
| Special Ed. Project       | 679                                  | -          | 33            | 646                                  | 679                                  | -  | -                                       | -   | 646                                  |
| Speech Club               | 2,224                                | 3,443      | 5,552         | 115                                  | 2,224                                | -  | -                                       | -   | 115                                  |
| Student Council           | -                                    | 830        | 600           | 230                                  | -                                    | -  | -                                       | -   | 230                                  |
| Textbooks                 | 25,793                               | 6,317      | 20,559        | 11,551                               | 25,792                               | -  | -                                       | 1   | 11,551                               |
| T.V. Workshop             | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| WHHS                      | 145                                  | 1,315      | 364           | 1,096                                | 145                                  | -  | -                                       | -   | 1,096                                |
| Business Principles       | -                                    | 1,890      | 1,159         | 731                                  | -                                    | -  | -                                       | -   | 731                                  |
| Fine Arts Department      | 197                                  | 1,500      | 1,566         | 131                                  | 197                                  | -  | -                                       | -   | 131                                  |
| Freshman Class            | -                                    | 200        | -             | 200                                  | -                                    | -  | -                                       | -   | 200                                  |
| Girls Soccer              | 3,950                                | 3,272      | 3,003         | 4,219                                | 3,949                                | -  | -                                       | 1   | 4,219                                |
| Sunshine                  | 30                                   | 110        | 75            | 65                                   | 30                                   | -  | -                                       | -   | 65                                   |
| Vo. Ag. Class             | 327                                  | 1,629      | 1,953         | 3                                    | 327                                  | -  | -                                       | -   | 3                                    |
| FTA                       | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| New Beginnings Learn      | 2,363                                | 721        | 1,400         | 1,684                                | 2,363                                | -  | -                                       | -   | 1,684                                |
| Europe 2004               | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Vocational Department     | 80                                   | 1,000      | 917           | 163                                  | 80                                   | -  | -                                       | -   | 163                                  |
| STLP                      | 172                                  | -          | -             | 172                                  | 172                                  | -  | -                                       | -   | 172                                  |
| Social Studies Department | 346                                  | 1,876      | 1,172         | 1,050                                | 346                                  | -  | -                                       | -   | 1,050                                |
| Girls Golf                | 60                                   | 2,257      | 1,292         | 1,025                                | 60                                   | -  | -                                       | -   | 1,025                                |
| Boys Soccer/District      | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| Girls District Tournament | -                                    | 5,257      | 5,257         | -                                    | -                                    | -  | -                                       | -   | -                                    |
| FBLA                      | 10                                   | -          | -             | 10                                   | 10                                   | -  | -                                       | -   | 10                                   |
| Boys Soccer/Regional      | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| French Club               | 496                                  | 6,224      | 6,484         | 236                                  | 495                                  | -  | -                                       | 1   | 236                                  |
| Girls Soccer/Regional     | -                                    | -          | -             | -                                    | -                                    | -  | -                                       | -   | -                                    |
| TOTALS                    | \$ 160,715                           | \$ 484,324 | \$ 532,160    | \$ 112,879                           | \$ 160,712                           | \$ 895                                     | \$ 354                                  | \$ 3  | \$ 113,420                           |



**HARRISON COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title | Federal<br>CFDA<br>Number | Pass -<br>Through<br>Grantor's<br>Number | Federal<br>Expenditures |
|--|---------------------------|--|-------------------------|
| <u>U.S. DEPT. OF AGRICULTURE</u>                           |                           |  |                         |
| Passed Through State Dept. of Agriculture:                 |                           |  |                         |
| Food Distribution (In-Kind Commodities)                    | 10.550                    |  | \$ 78,724               |
| Passed Through State Dept. of Education:                   |                           |  |                         |
| School Breakfast   | 10.553                    | 57605-05                                 | 185,132                 |
| National School Lunch                                      | 10.555                    | 57505-02                                 | 521,022                 |
| Child and Adult Care                                       | 10.558                    | 58005-16                                 | 4,449                   |
| Summer Food Service  | 10.559                    | 57404-23                                 | <u>20,269</u>           |
| TOTAL U.S. DEPT. OF AGRICULTURE                            |                           |  | <u>809,596</u>          |
| <u>U.S. DEPT. OF EDUCATION</u>                             |                           |  |                         |
| Passed Through State Dept. of Education:                   |                           |  |                         |
| Adult Education Basic                                      | 84.002                    |  | 1,678                   |
| Title I  | 84.010                    | 35105-01                                 | 560,466                 |
| Migrant Education Basic                                    | 84.011                    | 35205-02                                 | 73,203                  |
| IDEA B   | 84.027                    | 58104-02                                 | 608,797                 |
| Vocational Education                                       | 84.048                    | 46205-32                                 | 22,044                  |
| Preschool - Early Childhood                                | 84.173                    | 58705-02                                 | 34,445                  |
| Title IV - Safe & Drug Free Schools                        | 84.186                    | 59005-02                                 | 18,518                  |
| Title II - Technology Prep Education                       | 84.243                    |  | 29,570                  |
| Title V - Innovative Programs                              | 84.298                    | 53305-02                                 | 17,532                  |
| Technology Literacy Challenge                              | 84.318                    | 73604-02                                 | 25,083                  |
| English Language Acquisition Grants                        | 84.365                    | 52005-02                                 | 9,346                   |
| Jobs for Kentucky Graduates                                | 17.325                    |  | 19,369                  |
| Title II - Improving Teacher Quality                       | 84.367                    | 71005-02                                 | <u>162,245</u>          |
| TOTAL U.S. DEPT. OF EDUCATION                              |                           |  | <u>1,582,296</u>        |
| <u>U.S. DEPT. OF HEALTH and HUMAN SERVICES</u>             |                           |  |                         |
| Workforce Investment Act                                   | 93.561                    |  | 52,664                  |
| <u>U.S. DEPT. OF DEFENSE</u>                               |                           |  |                         |
| National Guard Military Operations & Maintenance           | 12.401                    |  | 3,597                   |
| <u>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE</u>    |                           |  |                         |
| Passed Through State Dept. of Education:                   |                           |  |                         |
| Learn and Serve America                                    | 94.004                    | 74304-02                                 | <u>3,000</u>            |
| TOTAL FEDERAL FINANCIAL ASSISTANCE                         |                           |  | <u>\$ 2,451,153</u>     |

**HARRISON COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2005**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Harrison County School District and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities disbursed. For the year ended June 30, 2005, the District received food commodities totaling \$78,724.

**HARRISON COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**A. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued (unqualified)

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes      X  no
- Reportable condition(s) identified that are not considered to be material weakness? \_\_\_\_\_yes      X  no

Noncompliance material to financial statements noted?

\_\_\_\_\_yes      X  no

**Federal Awards**

Internal control over majority programs:

- Material weakness(es) identified? \_\_\_\_\_yes      X  no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes      X  no

Type of auditor's report issued on compliance for the major programs (unqualified):

Any audit findings disclosed that are required to be report in accordance with section 510(a) of Circular A-133?

\_\_\_\_\_yes      X  no

Identification of major programs:

CFDA Number(s)

Name of Federal Program of Cluster

84.027

IDEA B

10.555

National School Lunch Program

84.173

Preschool

Dollar threshold used to distinguish Between type A and type B programs:

\$   300,000  

Auditee qualified as low-risk auditee?

\_\_\_\_\_yes      X  no

**HARRISON COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2005**

**B. Financial Statement Findings**

NONE

**C. Federal Award Findings and Questioned Costs**

NONE

# SUMMERS, MCCRARY & SPARKS, P.S.C.

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Harrison County School District  
Cynthiana, Kentucky

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harrison County School District (District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Procedures for Auditing Local Districts Fiscal Records*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 28, 2005.

Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the District in a separate letter dated September 28, 2005.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
September 28, 2005

# SUMMERS, MCCRARY & SPARKS, P.S.C.

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### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee For School District Audits  
Members of the Board of Education  
Harrison County School District  
Cynthiana, Kentucky

#### Compliance

We have audited the compliance of the Harrison County School District (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

Page Two

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
September 28, 2005



# SUMMERS, MCCRARY & SPARKS, P.S.C.

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Harrison County School District  
Cynthiana, Kentucky

In planning and performing our audit of the financial statements of Harrison County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 28, 2005 on the financial statements of the Harrison County School District

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
September 28, 2005

**HARRISON COUNTY SCHOOL DISTRICT  
MANAGEMENT POINTS  
JUNE 30, 2005**

**BOARD**

1. Cash Disbursements

Comment: The District needs to strengthen and review the existing controls over the supporting documents for cash disbursements. When testing cash disbursements, we noted the following items: 1) three invoices did not have purchase orders; 2) three purchase orders did not include shipping costs, 3) one invoice was found to have paid sales tax and 4) one invoice did not have an approved purchase order.

Response: A few checks where no purchase orders were issued were due to them being recurring bills. We have addressed the remaining issues with purchase orders with principals and employees and have asked them to be sure and put shipping and handling on purchase orders. We will discuss this again with principals and board personnel.

2. Payroll

Comment: While reviewing the internal controls over payroll, we noted one instance where the proper forms were not available to support an employee's payroll withholding, and two instances where Form I-9 were not found in the employees' personnel files.

Response: We will implement procedures to make sure all employees have proper withholding forms and I-9's in their personnel files.

3. Day Care Operations

Comment: We noted the responsibilities for recording attendance, billing and collections are direct duties or directly controlled by the day care manager. We recommend the Central Office implement monitoring procedures over the day care operations relating to the amount of revenues received and deposited. We also noted in some instances, day care receipts are only being deposited every two weeks. Deposits should be made more frequently to safeguard cash.

Response: We will implement procedures to reconcile attendance with revenues collected and accounts receivable balances.

4. Special Purpose Trust Funds

Comment: Written policies should be developed concerning the investment and disbursement of funds to comply with the donors' restrictions.

Response: Original documentation on the fund restrictions may not be available. At a minimum, we will document procedures regarding spending only interest, safeguarding principal, allocating interest between funds and how recipients of scholarships are selected.

**HARRISON COUNTY SCHOOL DISTRICT  
MANAGEMENT POINTS  
JUNE 30, 2005  
ACTIVITY FUNDS**

**HARRISON COUNTY HIGH SCHOOL**

Comment: While reviewing cash receipts, we discovered that deposits were not being made on a timely basis.

Recommendation: The Bookkeeper should review the "Handling Cash" policy section, item no. 3 of the Red Book, which states all monies collected should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100.

Response: Bookkeeper will be instructed that deposits be made at least weekly and also anytime she has in excess of \$100.

Comment: While reviewing cash receipts, we discovered that two initials were not being obtained on the deposit slips.

Recommendation: The Bookkeeper and Principal should review the "Handling Cash" policy section, item no. 6, of the UPASAF, which states an employee, other than the person preparing the deposit slips, shall verify that the amount on the deposit ticket agrees with the amount of receipts recorded in the ledger sheets.

Response: The bookkeeper and Principal will find a second person to initial bank deposit slips and verify amount.

Comment: While reviewing transfers between accounts, we discovered that signatures are not always being obtained on the Transfer Form (Form F-SA-10).

Recommendation: The Principal and Bookkeeper should review the "Transfers" policy section, item no. 1, of the UPASAF, which states the sponsor of the remitting activity, the school treasurer, and the principal shall sign the Transfer Form.

Response: The Principal and bookkeeper will again be instructed to obtain ALL required signatures on transfer forms.

Comment: While reviewing the forms for Athletic Ticket Sales, we discovered that the Requisition and Report of Ticket Sales (Form F-SA-1) was not always being signed when money is being turned back in.

Recommendation: The Bookkeeper and Principal should review the "Ticket Sales" procedures section, item no. 6, of the UPASAF, which states that reconciliation, explanation of shortages/overages, and signatures should be recorded using Form F-SA-1.

Response: The bookkeeper will be instructed to make sure all Ticket Sales forms have appropriate signatures before being accepted by her.

Comment: While reviewing Cash Disbursements we found that vendor invoices and six standard invoices were not approved by the sponsor and/or principal before being paid.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 4, of the UPASAF, which states that the vendor invoice and/or standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.

Response: The bookkeeper will be instructed to make sure all invoices are approved by the sponsor and/or principal before being paid.

Comment: During our review of the Accounts Receivable Listing, three items were added.

Recommendation: The Bookkeeper should review the "Financial Reports" section, items no. 1 and 4, of the UPASAF. Any items that are claims held against others for goods or services provided by an activity prior to or on June 30, 2005 for which the school had not yet received at June 30, should be listed on the Annual Financial Report (Form F-SA-15B) as an accounts receivable.

Response: The bookkeeper will adjust her June 30 financial report to include the accounts payable and accounts receivable items. She will also be instructed to check for these before closing her books in future years.

Comment: During our review of the Accounts Payable Listing, three items were added.

Recommendation: The Bookkeeper should review the "Financial Reports" section, items no. 1 and 4, of the UPASAF. Any balances owed to others for goods or services purchased by an activity that were incurred prior to or on June 30, 2005 for which the school had not yet paid at June 30, should be listed on the Annual Financial Report (Form F-SA-15B) as an accounts payable.

Response: The bookkeeper will adjust her June 30 financial report to include the accounts payable and accounts receivable items. She will also be instructed to check for these before closing her books in future years.

### **HARRISON COUNTY MIDDLE SCHOOL**

Comment: During our review of Cash Disbursements we found one purchase order that did not have the Principal's signature.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 1, of the UPASAF, which states to initiate a purchase, a Purchase Order (Form-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated.

Response: Bookkeeper will be instructed to be sure and get appropriate signatures before issuing a purchase order.

Comment: During our review of Cash Receipts we discovered that checks are not being itemized on the deposit slips.

Recommendation: The Bookkeeper should review the "Handling Cash" procedures section, item no. 4, of the UPASAF, which states the school treasurer shall prepare deposit slips containing the issuer name and the amount of each check to be deposited.

Response: Bookkeeper will be instructed that checks should be itemized on deposit slips whenever possible.

### **EASTSIDE ELEMENTARY**

Comment: While reviewing Cash Disbursements we found that invoices were not approved by the sponsor and/or principal before being paid.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 4, of the UPASAF, which states that the vendor invoice and/or standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.

Response: The school bookkeeper will be instructed to obtain approval from club sponsor and/or principal before paying any invoices.

Comment: While reviewing cash receipts, we discovered that two initials were not being obtained on the deposit slips.

Recommendation: The Bookkeeper and Principal should review the "Handling Cash" policy section, item no. 6, of the UPASAF, which states an employee, other than the person preparing the deposit slips, shall verify that the amount on the deposit ticket agrees with the amount of receipts recorded in the ledger sheets.

Response: The Principal and bookkeeper will be instructed to find a second person to initial bank deposit slips and verify amount.

Comment: During our review of the Accounts Payable Listing, three items were added.

Recommendation: The Bookkeeper should review the "Financial Reports" section, items no. 1 and 4, of the UPASAF. Any balances owed to others for goods or services purchased by an activity that were incurred prior to or on June 30, 2005 for which the school had not yet paid at June 30, should be listed on the Annual Financial Report (Form F-SA-15B) as an accounts payable.

Response: The bookkeeper will be instructed to adjust her June 30 financial report to include the accounts payable items. She will also be instructed to check for these before closing her books in future years.

### **NORTHSIDE ELEMENTARY**

Comment: While reviewing cash disbursements we found that invoices were not approved by the sponsor and/or principal before being paid.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 4, of the UPASAF, which states that the vendor invoice and/or standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.

Response: The bookkeeper will be instructed to obtain approval from club sponsor and/or principal before paying any invoices.

Comment: While reviewing cash receipts, we discovered that two initials were not being obtained on the deposit slips.

Recommendation: The Bookkeeper and Principal should review the "Handling Cash" policy section, item no. 6, of the UPASAF, which states an employee, other than the person preparing the deposit slips, shall verify that the amount on the deposit ticket agrees with the amount of receipts recorded in the ledger sheets.

Response: The Principal and bookkeeper will be instructed to find a second person to initial deposit tickets and verify amounts.

Comment: During our inquiry of Cash Advances we found that the Expense Report (Form F-SA-9) was not being completed.

Recommendation: The Bookkeeper should review the "Cash Advances, Travel Reimbursements, and Pay For Services" policy section, item no. 1, of the UPASAF, which states cash advances and expense reimbursement shall be supported by the Expense Report (Form F-SA-9).

Response: The bookkeeper will be instructed to complete the Expense Report anytime cash is advanced to an employee for a student trip.

### **SOUTHSIDE ELEMENTARY**

Comment: While reviewing cash disbursements we found that invoices were not approved by the sponsor and/or principal before being paid.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 4, of the UPASAF, which states that the vendor invoice and/or standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.

Response: The bookkeeper will be instructed to obtain approval from the club sponsor and/or principal before paying any invoices.

Comment: While reviewing cash receipts, we discovered that two initials were not being obtained on the deposit slips.

Recommendation: The Bookkeeper and Principal should review the "Handling Cash" policy section, item no. 6, of the UPASAF, which states an employee, other than the person preparing the deposit slips, shall verify that the amount on the deposit ticket agrees with the amount of receipts recorded in the ledger sheets.

Response: The Principal and bookkeeper will be instructed to find a second person to initial deposit tickets and verify amounts.

Comment: During our review of Cash Disbursements, it came to our attention that two signatures were not appearing on purchase orders.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 1, of the UPASAF, which states to initiate a purchase, a Purchase Order (Form-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated.

Response: The bookkeeper will be instructed to obtain 2 signatures on purchase orders.

### **WESTSIDE ELEMENTARY**

Comment: While reviewing cash disbursements we found that invoices were not approved by the sponsor and/or principal before being paid.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 4, of the UPASAF, which states that the vendor invoice and/or standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.

Response: The bookkeeper will be instructed to obtain approval from the club sponsor and/or principal before paying any invoice.

Comment: While reviewing cash receipts, we discovered that two initials were not being obtained on the deposit slips.

Recommendation: The Bookkeeper and Principal should review the "Handling Cash" policy section, item no. 6, of the UPASAF, which states an employee, other than the person preparing the deposit slips, shall verify that the amount on the deposit ticket agrees with the amount of receipts recorded in the ledger sheets.

Response: The Principal and bookkeeper will be instructed to find a second person to initial deposit tickets and verify amounts.

Comment: During our review of the Accounts Receivable Listing, two items were added.

Recommendation: The Bookkeeper should review the "Financial Reports" section, items no. 1 and 4, of the UPASAF. Any items that are claims held against others for goods or services provided by an activity prior to or on June 30, 2005 for which the school had not yet received at June 30, should be listed on the Annual Financial Report (Form F-SA-15B) as an accounts receivable.

Response: The bookkeeper will be instructed to adjust her June 30 financial report to include the accounts payable items. She will also be instructed to check for these before closing her books in future years.

Comment: During our review of the Accounts Payable Listing, three items were added.

Recommendation: The Bookkeeper should review the "Financial Reports" section, items no. 1 and 4, of the UPASAF. Any balances owed to others for goods or services purchased by an activity that were incurred prior to or on June 30, 2005 for which the school had not yet paid at June 30, should be listed on the Annual Financial Report (Form F-SA-15B) as an accounts payable.

Response: The bookkeeper will be instructed to adjust her June 30 financial report to include the accounts payable items. She will also be instructed to check for these before closing her books in future years.

Comment: During our review of Cash Disbursements, it came to our attention that the sponsor requesting the purchase is not being required to sign the purchase order.



Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 1, of the UPASAF, which states to initiate a purchase, a Purchase Order (Form-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated.

Response: The bookkeeper will be instructed to make sure all purchase requests are signed by the person requesting the purchase.

### **FAMILY RESOURCE YOUTH SERVICES CENTER**

Comment: While inquiring about cash receipts, it came to our attention that transfer forms are not being used.

Recommendation: The Bookkeeper should review the "Transfers" policy section, item no. 1, of the UPASAF, which states amounts may be transferred between activity funds only by proper completion of a Transfer From (Form F-SA-10).

Response: The bookkeeper will be instructed to make sure transfer forms are completed before any funds are moved.

Comment: While reviewing cash disbursements we found that invoices were not approved by the sponsor and/or principal before being paid.

Recommendation: The Principal and Bookkeeper should review the "Purchasing" procedures section, item no. 4, of the UPASAF, which states that the vendor invoice and/or standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.

Response: The bookkeeper will be instructed to obtain approval from the club sponsor and/or Director before paying any invoice.

Comment: While reviewing cash receipts, we discovered that two initials were not being obtained on the deposit slips.

Recommendation: The Bookkeeper and Principal should review the "Handling Cash" policy section, item no. 6, of the UPASAF, which states an employee, other than the person preparing the deposit slips, shall verify that the amount on the deposit ticket agrees with the amount of receipts recorded in the ledger sheets.

Response: The bookkeeper will be instructed to obtain a second person to initial deposit tickets and verify amounts.